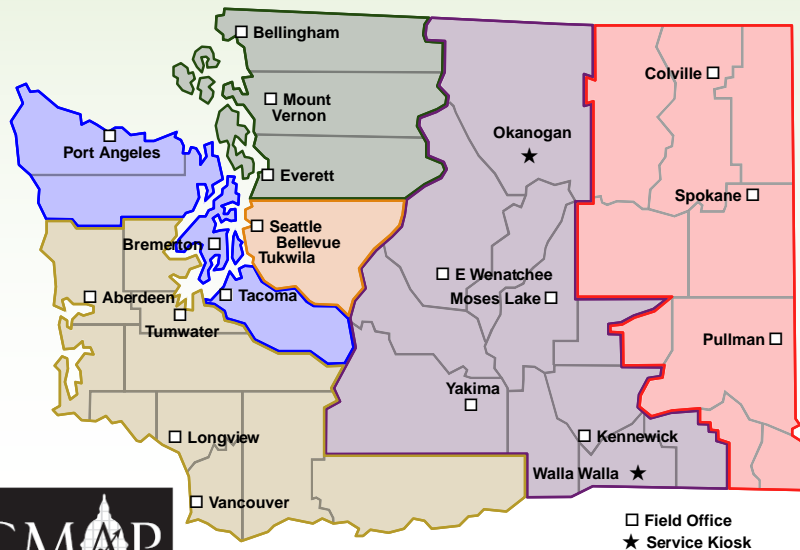
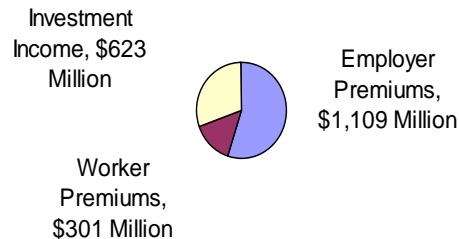


Washington State Workers' Compensation State Fund

2005 State Fund Revenue Sources

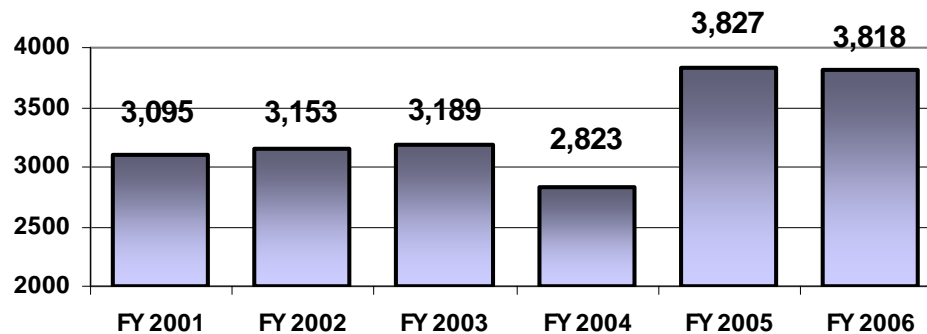


Background

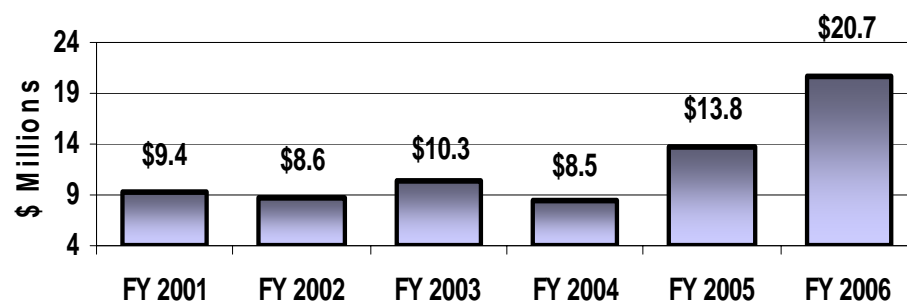
- L&I provides insurance coverage for about 2.3 million employees working for 161,000+ employers.
- L&I provides more than \$1.2 billion in insurance benefits for about 139,000 claims each year.
- Only four states have higher benefit levels while 34 states have higher premium rates.
- Money for these benefits come from three sources:
 - Quarterly premiums paid by employers (54.5%)
 - Payroll deductions from workers (14.8%)
 - Investment income (30.7%)
- L&I uses a voluntary reporting system of risk classifications by type of work and the claims experience of each individual employer to determine and assess premiums.
- About 90% of premiums are paid voluntarily, with the rest collected through department compliance actions.
- L&I employs 53 auditors in 18 service locations to ensure reporting compliance.

In 2006, L&I conducted 3,818 audits and assessed \$20.7M

Number of Completed Employer Audits



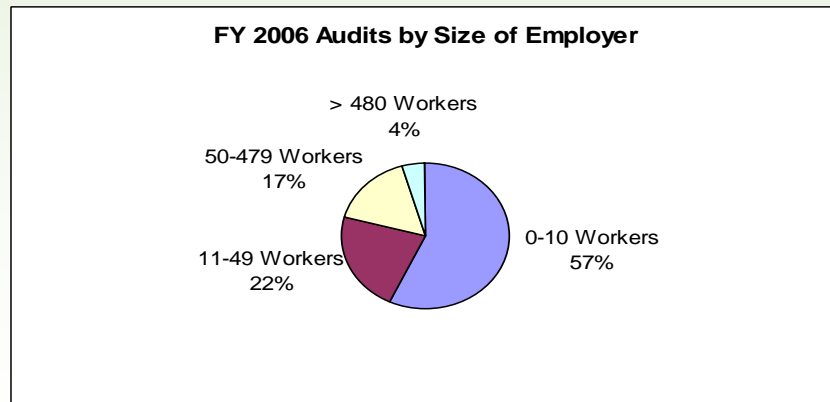
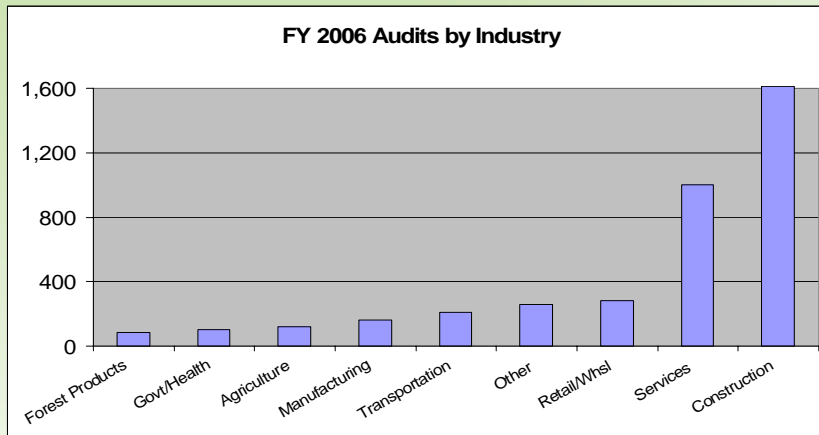
Millions of Dollars Assessed through Employer Audits



Analysis

- L&I conducted 3,818 audits in FY2006, 2.4% of the state's 161,000 employers.
- In 2004, we increased auditing capacity through process changes and adding more staff. The result: a significantly greater number of audits in FY2005.
- In FY2005 L&I began increasing dollars assessed by adding a fraud detection unit to improve audit targeting through better use of technology, cross-agency data sharing, and referral screening techniques.

Where L&I conducts audits



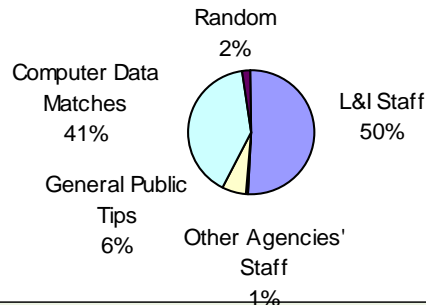
Analysis

In FY2006:

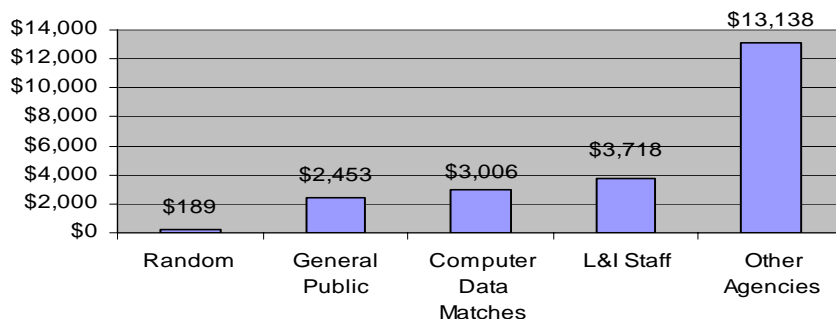
- 43% of L&I audits were in construction, 26% in professional, clerical and service occupations, and the remaining 31% in other industries.
- Both business and labor stakeholders continue to ask for more audits in construction to help level the playing field. Despite the large number of audits in the construction industry, L&I auditors continue to find reporting problems.
- Businesses with 10 or fewer employees represent about half of L&I accounts and accounted for 57% of all audits.
- Businesses who report over 1 million hours (480 or more employees) represent about 2.3% of L&I accounts and accounted for 4% of all audits.

98% of our audits were the result of referrals from many sources

FY 2006 Referral Sources for Completed Audits



FY2006 Average Assessment by Referral Source



Analysis

Targeted audits in FY 2006

- 98% of all audits
- 57% from referrals by L&I staff, other agencies and the general public
- 41% from comparisons to data from other L&I programs (Safety, Prevailing Wage, etc) or other agencies (Employment Security, Licensing, Revenue, DSHS, IRS)
- 58.6% resulted in dollars owed to L&I and 5.8% resulted in refunds to employers.

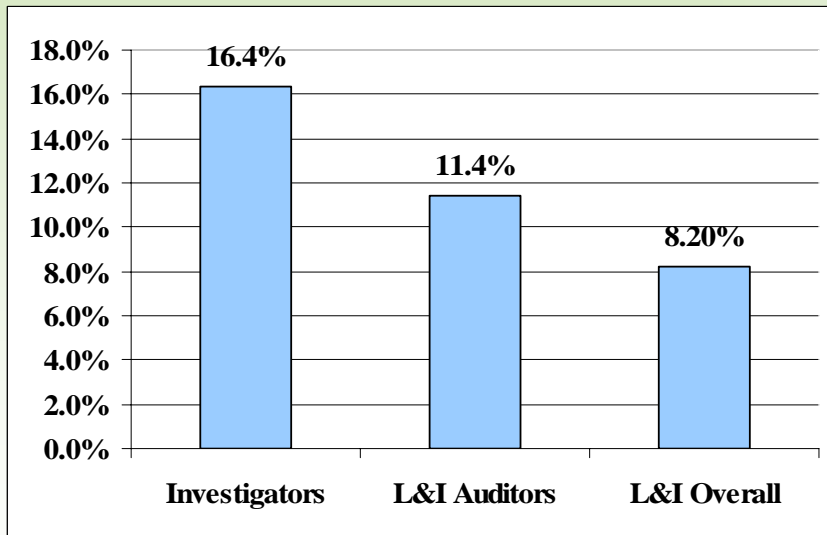
Random audits in FY 2006

- 2% of all audits
- 21.5% resulted in dollars owed to L&I and 12.8% resulted in refunds to employers.
- Random audits are standard practice in fraud prevention. They promote voluntary compliance by reminding employers they could be audited.

L&I is concerned with employee turnover.

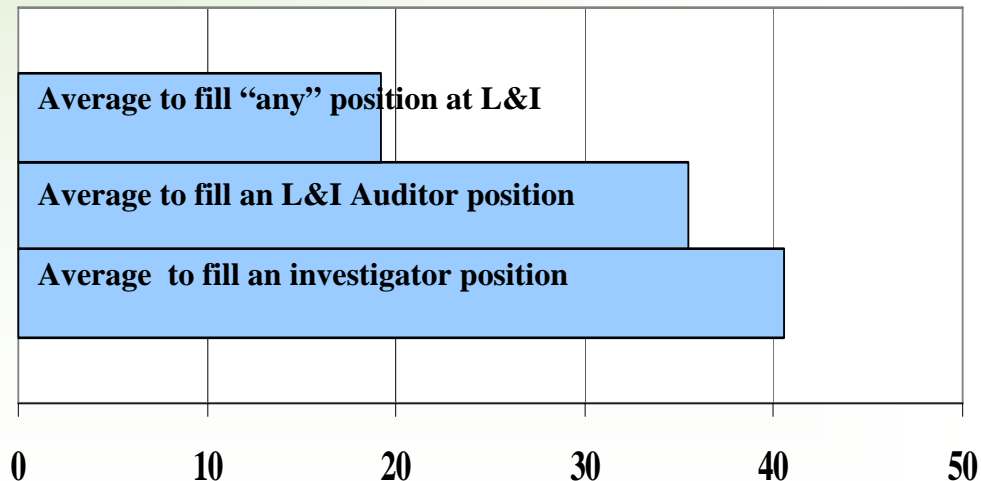
Investigator turnover is twice the agency average for the past year.

L&I Auditors are 150% of agency average for the past year.



Source: L&I data warehouse,
August 15, 2005 – August 15, 2006.

How many days does it take to fill a vacancy?



Department of Labor and Industries



From exit surveys, we know that Investigators and L&I Auditors leave for promotional opportunities and for higher-paying jobs.

Action	Date	Accountable
Investigator series sent for classification pay review as part of the collective bargaining act.	November 2006	Dave Stewart, Assistant Director OHR
Explore options for using higher-salaried auditor job classes. Continue working with the Department of Personnel on options.	November 2006	Dave Stewart, Assistant Director OHR
Refine and improve strategies for our recruitment at college programs that produce auditors.	November 2006	Catthi Olsen
Begin continuous recruitment of investigators to assure active, interested applicant pools. We are looking to law enforcement agencies, private investigation firms, and criminal justice programs for recruitment potential.	September 2006	Catthi Olsen
Conduct exit interviews and analyze the information from all individuals leaving audit and investigations positions and report the information learned to the Leadership Team.	December 2006	Hiring managers with Office of Human Resources